

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Big Rapids	County Mecosta
Fiscal Year End June 30, 2007	Opinion Date September 24, 2007	Date Audit Report Submitted to State December 17, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

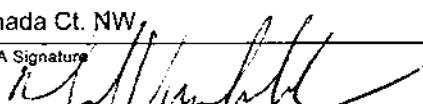
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	comments are included in single audit schedule of findings	
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Vredeveld Haefner LLC		Telephone Number 616-446-7474	
Street Address 4001 Granada Ct. NW		City Grand Rapids	State MI
Zip 49534			
Authorizing CPA Signature 	Printed Name Douglas J. Vredeveld		License Number 21289

COMPREHENSIVE ANNUAL FINANCIAL REPORT
of the
CITY OF BIG RAPIDS
YEAR ENDED JUNE 30, 2007

ISSUED BY
Treasurer's Office

TREASURER/ASSESSOR
Lorraine James

SUPPORT STAFF
Paul Cole, Income Tax Administrator
Jean Schneidt, Assistant Treasurer
Joyceann Francis, Assessor
Carla Staffen, Administrative Assistant
Heidi Horan, Finance/Utility Clerk
Paula Weipert, Assessment Technician
Barbara Obert, Account Clerk
Melissa Ferens, Meter Reader
Amanda Hoppe, Income Tax Clerk

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CITY OF BIG RAPIDS

226 North Michigan Avenue

Big Rapids, MI 49307

September 24, 2007

Members of the City Commission and the Citizens of the City of Big Rapids:

The Comprehensive Annual Financial Report of the City of Big Rapids, Michigan, for fiscal year ended June 30, 2007, is submitted herewith. The financial statements included in this report have been audited by Vredevelde Haefner LLC, an independent firm of certified public accountants. This report is prepared for the purpose of disclosing the City's financial condition to its residents, elected officials, and other interested parties.

The financial statements have been prepared in compliance with applicable State statutes and Generally Accepted Accounting Principles (GAAP) as stated in the Governmental Accounting Standards Board statements and interpretations. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data, as presented, is accurate in all material aspects, and that it is presented in such a manner as to fairly set forth the financial position and results of operations of the City as measured by the financial activity of its funds.

The independent audit of the financial statements of the City of Big Rapids was part of a broader, audit in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States of America. As part of this audit a Report on Internal Control over Financial Reporting and Compliance and other matters based on an audit of financial statement has also been provided.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Big Rapids' MD&A can be found immediately following the report of the independent auditors.

Equal Opportunity Employer

City Manager	231-592-4020	City Treasurer	231-592-4002	Neighborhood Services	231-592-4035
Assessing	231-592-4030	DART	231-796-8675	Public Safety	231-527-0005
City Clerk	231-592-4000	Income Tax	231-592-4012	Public Works	231-592-4015
Water Plant	231-796-6231	Engineering	231-592-4018	Wastewater Plant	231-796-8483

REPORTING ENTITY AND ITS SERVICES

The City of Big Rapids celebrated its 150th anniversary in 2005. This brought much activity to the community and added a band shell which continues to enhance the quality of life for residents. The facility has become in one short year a Mecca for artistic activities – housing two concert series and stage performances during the summer. Located in the very popular Hemlock Park area, the community has a memento of the 150th year – compliments of the Planning Committee chaired by Luanne Rothstein (the band shell committee was chaired by Rex Schuberg).

The City of Big Rapids is located 60 miles north of Grand Rapids, 45 miles south of Cadillac on U.S. 131, a four lane highway connecting Chicago to Traverse City via Kalamazoo. This route provides significant access and economic benefit to the area carrying commerce and much tourist activity to vacation spots in northern Michigan and the Upper Peninsula. Big Rapids is the county seat of Mecosta County and is therefore the political center of the region. This position continues to produce economic benefit and advantage for the community.

Ferris State University – with its 1,300 employees and over 13,000 students (in the fall of 2007 – again a record enrollment year), is the region's largest employer and the driving force behind the economic, social and cultural successes in Mecosta County. Dr. David Eisler was inaugurated into the presidency of the University in 2003 and has lead the energy and dynamic progress at the institution. Enrollment is again up over 400 students in Big Rapids – and retention of upper-class students is at a record high 70% (which is well above the Michigan University average.). This impressive growth is being accomplished at the same time that entrance standards are being raised. SAT scores for admission are now at 20 – with this year's freshmen actually over a half point above that target. This increased academic excellence brings to Big Rapids a student more interested in a career and academic study – and one who has already a proven track record. The improving students are already evident to the community – and reflect very positively in the police statistics!!!

The focus on campus this year is the opening of the IRC (Information Resource Center). The funding for the center through special appropriation was considered a major lobbying coup for the University as the higher education projects across Michigan were very few in 2006. Over \$8,500,000 was appropriated to fund this project. As construction for this project involved a temporary loss of over 100 prime parking spots on campus, the City and University worked together to find nearly 150 new (temporary) locations across the community.

A goal of President Eisler is the creation of the campus as a wireless internet area. About two thirds of the campus has now been completed with one more significant upgrade needed. Telephone service has also been upgraded on campus with the assistance of the City water tower locations for antennas. The City and Ferris are also cooperating in aerial digital photography of the campus and community. Together we have flown the region and are completing topographical maps of the area with 2 foot intervals. This should prove very helpful in the future to planning and engineering efforts for all.

The University is optimistic about the construction of a new optometry building. This project narrowly missed being funded in 2007 by the State legislature. There is much anticipation that success will be reached in 2008. At present, Ferris is the only University in Michigan offering a

degree in optometry. A new structure in the West Campus area would be a needed addition to the prestige of this degreed program.

The City's legislative body is a five member Board of Commissioners which is elected by a vote of the public. The mayor has a two year term, while the four Commissioners serve four year terms. All elected members are limited to 8 years in office. Ed Burch is the present Mayor and is serving his last term in office and will 'retire' in November 2007.

The administrative side of the Government changed dramatically in the past year with the retirement of Kevin Courtney, Director of Public Safety for 13 years. After a statewide search he was replaced by Frank West of the Department -- a well qualified candidate with 22 years on the Big Rapids Department and credentials from both the Michigan Leadership Academy and the National FBI Academy. With Kevin's retirement the City has taken the opportunity to reduce the administrative overhead in the department by consolidating the two deputy directors into one position -- which will enable the department to add a needed additional firefighter.

Even greater change will result from the retirement of the long-term financial leadership of Lorraine James. Under her guidance the City received 22 consecutive GFOA certificates of excellence in financial reporting. Her knowledge of the Community and the confidence she enjoyed from the Commission will be highly missed. Most especially, her willingness to innovate with programs -- self funded insurance, low interest business loans, housing initiatives, DDA, recreation funding, Art Works ----all added value and quality of life to Big Rapids.

Lorraine is replaced by Lynne Fields, a veteran of both the public and private finance sectors. Her career began with a large cabinet company (Merillat Industries LLC) and continued with work with the Addison Community Schools. Lynne was born and raised in Big Rapids -- and so has many ties here which gives her an understanding of the community and its needs.

As part of the AFSCME union negotiations the City for years has encouraged the transition from DB to DC retirement. This position took a significant boost with an early retirement offer to all employees with over 20 year's service in July, 2007. The window opens from September to December and already 2 employees are committed to retiring -- with 4 others likely. The transition has very mixed results because, while the City will save significant dollars with new employees, much seniority, experience and value will be lost.

The remaining department staff remains talented, capable and experienced. They include:

Lorraine James -- Finance replaced by
Don Greiner -- Engineer
Eric Williams -- Attorney
Tim Moslener -- Technology
Frank West -- Public Safety

Lynne Fields -- Finance as of 09/05/07
Tim Vogel -- Public Service
Roberta Cline -- Clerk
Gaylynn Rorabaugh -- Library

The City is led by the administrative branch as approved by the Commission. This leadership is guided by a series of citizen committee. Most important in this process, these committees represent a cross section of the residents who serve without pay to recommend policy and make

decisions and guide progress. Planning Board, Park Board., Tax Board of Review, and Board of Adjustment comprise the most active of these public boards.

ECONOMIC CONDITIONS AND OUTLOOK

The State of Michigan continues to experience economic shortfalls which have created financial difficulty for all local governments. The State has cut local revenue sharing funds – to Big Rapids by about \$200,000 annually. The State continues to experience job out-placement and unemployment rates that lead the nation. Recent financial projections indicate that this condition may continue in the State for another 5 years. The City has responded over the past three years by examining each purchase and cutting expenses where ever possible. In addition, as employees retired careful analysis is made to determine if the position activities can be consolidated with other employees. Three positions have been eliminated using this analysis (one in safety, one in service, and one in finance).

In addition, the Commission has begun to look at service fees to determine if the charges are in line with the actual costs of providing the service. Several fees have been increased, including inspection of rentals and parking ticket fines. Together these efforts have resulted in 'recovery' of nearly ¾'s of the cuts. By the budget of 2008, Big Rapids is 'back' to the financial condition that existed before the economic downturn became serious in 2003.

The City Commission has taken the position for many years that property tax increases are not an option. The residents of the community already contribute a 'reasonably fair' property tax for community services and increases above an area average would be counter-productive to economic health. With Ferris State University within the community, Big Rapids has the unique position of having 40%+ of its real estate exempt from property taxes. Property taxes are therefore considered a rather disproportionate method of producing revenue. For over 10 years the Big Rapids Commission has held the line on voted taxes. Only increases for capital construction projects have been enacted after a vote of the people. The public has been extremely supportive in their votes for the passage of such community needs.

With finances a challenge, the City has turned to grant opportunities as a primary source to keep governmental functions operating at a high level. Big Rapids has been inordinately successful in this venture. Cindy Plautz, Ann Miller, and Liz West have been key players in putting grants together. In 2005-6, the City completed a CDBG grant to construct a water line across the Muskegon River – connecting Oak Street with Bjornson Street. This project cost about \$1.2 million and was an instant success not only for the water system – but also in rebuilding streets around the Hospital. On the heels of that street effort the City has been awarded grants to rebuild three blocks of Dekrafft and two of Maple Street. These projects are currently underway and will require another \$500,000.

The parks were the beneficiary of \$150,000 to build Centennial Park's parking and landscaping changes, while smaller contributions have built a gazebo and a frisbee golf course. Several Citizens have also contributed to the effort in the donation of trees and lights for the parks. Arts programs have also been supported to sponsor bands and vocal group's performances at the bandshell.

In addition to these efforts the City has gained major assistance in the utility construction with funds to build a UV treatment facility in 2006. As the Wastewater plant upgrade is scheduled to cost around \$7,000,000, other sources of funding are being solicited. Recent efforts have qualified the City for 100% funding of engineering design costs – approximately \$750,000. Low interest loans are also available from the State which are being pursued. Plans have been completed for the wastewater upgrade with bidding to take place in January or February of 2008.

Police and fire grants have also been plentiful sponsoring events, purchasing vehicles, and coordinating anti-drug and alcohol enforcement. Together another \$100,000 has been received from these sources. A USDA grant has just been announced for installation of new computers in police cars. This will take place within the next 6-8 months.

Downtown development has been a major focus in the past year. The DBA sponsored an application to the Michigan Main Street Program which was funded. This designation resulted in consultants, Hyett/Palma, reviewing the downtown to make suggestions to enhance the business environment. One of the recommendations was to create a focal point for the district with a 'gathering point' of architectural significance. To implement that recommendation the DBA received funding to purchase and demolish the empty Chinese restaurant on Michigan Avenue. It is anticipated that this will become a place of commerce with arts, cultural, farmers market etc. being suggested as possible uses of the space. A committee will make the determination on its use for implementation in 2008.

Another suggestion of the Hyett/Palma report was a change in the financing of the organization. The report suggests that TIF funding is both larger and more effective than the direct 2 mills currently applied. It is expected that this recommendation will reach the commission by the fall. In the interim the City had been using OPRA (tax abatement) and Brownfield development as its economic development incentive.

Lake Osceola State Bank was the first business 'recruit' after the Hyett/Palma report. They bought into the Brownfield program which allowed the renovation of an old bookstore into a banking facility. Completing this construction as a historic preservation project lent additional value to the Community. As a result of their efforts, Lake Osceola State Bank has been awarded the 'best downtown renovation project of 2007' by the State MSHDA office. The City assisted the project with the abatement of lead paint and asbestos and putting in a new water service and fire line. The funding of this project will result in assistance to the Bank – AND – also to the Brownfield authority to help fund future projects. Around \$40,000 will accumulate for that purpose over the next several years.

After the Hyett/Palma report much energy has been generated in the downtown and several new businesses have been established including: ladies apparel, shoe store, investment firm, title company, bed and breakfast, second floor apartments, meat market, and restaurant. The City has been fortunate to have such a thriving business district. This has come while the region has flourished at the same time – adding big box stores and businesses: Menards, Ruby Tuesdays, etc.

The Roben Hood Airport has become a focus of activity as well. Much has been happening there that will be a major support for future business/industrial development. New landing lights were installed in 2006 (costing around \$400,000), as was a new fuel system supporting Jet-A fuel.

New T-hangers will be added in 2007, which promise to bring more aircraft to the airport – which should boost commerce, fuel sales and economic activity. These projects will bring more regional attraction to the airport and make it a destination for certain aircraft. Much more is planned for the airport as it continues to build a friendly reputation in the region.

The Mecosta County Medical Center changed its name (from Hospital) to reflect its great circle of services and the completion of the OR-ER upgrade. With these first class facilities a national accreditation agency named the Center one of the top 100 hospitals in the Country. Next on the agenda for the hospital is a woman's cancer treatment center. Plans are being drawn and fund raising is underway for this quality of life addition.

Incredibly, in the midst of economic challenge – Big Rapids industries have seemed to be an exception to the rule. Big Rapids Products, Mark IV Automotive and Federal Screw all added employees in the past two years. Wolverine Worldwide which has languished for several years in the shoe market indicated within the last month that they are moving a part of their Rockford, Michigan operations to Big Rapids – and Simonds (knife) is making a similar consolidation from Florence, South Carolina. Most recent activity has taken place with Haworth who have been relocating product lines from Saskatchewan. While in-town industries expanded in 2006 and 2007, the Mecosta County Business Park near the airport also added two new small industries and completed the water and sewer utilities servicing the park.

In summary, Big Rapids is regaining its financial strength. The past three years have been a struggle, but the streamlining has been good for the community. The future looks quite favorable as the community positions itself as an even more powerful regional center for education, business, medical, and governmental services.

CASH AND INVESTMENT MANAGEMENT

Each fund within the City has its cash that is needed for daily operations, invested in the City depository and investment pool or in separate depository and investment accounts. Cash temporarily idle during the year may be invested in bank certificates of deposit, commercial paper, bank money market accounts, as well as U.S. Government securities as permitted by the State of Michigan statutes and the City's Cash and Investment Policy. Balances in the Act 345 pension fund can be invested in additional types of securities including equities as allowed by State of Michigan statutes.

RISK MANAGEMENT

The City manages its risk exposures through a combination of self-insurance programs, risk management pools, and commercial insurance and excess coverage policies.

For coverage concerning property, general liability, automobile liability, motor vehicle physical damage, and property damage, the City participates in the Michigan Municipal Liability and Property Pool. Unemployment claims are reimbursed to the Michigan Employment Security Commission. The City is self-insured for employee health, dental, and vision insurance. Excess insurance coverage purchased by the City covers individual claims and an aggregate claim amount which are set annually.

PENSION BENEFITS

The City provides employees in the various bargaining and non-bargaining unit pension benefits through either defined benefit or defined contribution pension plans. Benefits and employee and employer contributions vary depending on employee elections, position and bargaining unit. A deferred compensation plan is also available to the various employee groups.

MAJOR INITIATIVES

The City of Big Rapids Commission has begun several initiatives to enhance the quality of life and maximize the effectiveness of government in the City. The following is a listing and description of the major projects and goals:

1. Roben Hood Airport

The Federally favored airport gets \$150,000 per year in funding to maintain and upgrade the facility. These funds accumulate from year to year until they are spent. Last year a new lighting system was installed costing around \$450,000 to assist in the landing of aircraft at night. This year around \$400,000 has been appropriated for airport line striping, new T-hangers, and a wind sock. Electronic gear has also been slated for relocation due to the anticipated demolition of the old hanger. An additional \$350,000 is being held in reserve for future projects including an aviation easement over the industrial park, additional length of the runway, fencing and other needed projects.

2. Wastewater Treatment Plant

The City Commission hired Prein and Newhof to design a renovated Wastewater plant. The preliminary costs are estimated at \$7,000,000. At this writing the design has been completed and the staging of the project is written. Many tanks at the plant are aging and in need of complete rebuilding. New aeration facilities, electrical and computer systems, settling tanks and office space is needed. Bidding for this project is anticipated in the Jan-Mar 2008 season.

3. Police Technology

The grants division wrote a plan to the USDA to install computer aided terminals in all the police cars. This system would make report writing and information transfer from the 911 dispatch center much more efficient. The system purchase will be integrated with identical new terminals for the County Sheriff's department. The \$41,000 grant has been approved.

4. Library

A Masterplan is needed to chart out the future course for an addition to the library. The Commission has appropriated funding for a study of location feasibility for this year and put aside another \$150,000 in designated funds for future construction. The state recently has made grants available for Cultural Buildings which may be a source of some funding possibilities. The USDA has grants available to assist in this effort. It is hoped that we might be able take advantage of this program to begin the planning process. It is hoped that this project may reach high gear in the next 3 to 4 years.

5. Fire Aerial Ladder

The present Aerial ladder is 30 years old. This is certainly testimony to the careful maintenance given to this important vehicle by the Fire Department. City Maintenance crews this year installed new hydraulic lines -- and pointed out that three more years would be a good estimate of the time this vehicle may continue to provide reasonable service. In response, the Commission added \$150,000 to the designated funds toward the purchase of a new aerial ladder truck.

6. Apparatus Bay

When the new Department of Public Safety building was built, it was thought that the air handling system would keep the vehicle fumes away from the administrative portion of the building. That has not proven to be the case. Before retiring, Gale Mortensen wrote a grant to purchase a system to attach directly to the tail pipes of Fire apparatus and draw the fumes away from the building. This system is expected to be constructed later this year.

7. Riverwalk

The City has been encouraged to submit additional DNR grants for an extension of the present Riverwalk system along the Muskegon river south toward the Hospital and River Park. A \$10,000 grant application, funded by the Riverwalk committee is the first step. Funding for the project will need to come from the DNR, City and other sources. The results of a grant application are expected 'momentarily'.

8. Park Preserve

A unique piece of ground became available this year which includes much of the Mitchell Creek basin. This ground starts at the Swimming pool and continues beyond the City Limits -- including around 150 acres. The land is mostly flood plain and not conducive to active park use. If acquired it is intended that the property be kept in 'natural state' and be used as a location for walking paths, natural preserve and wildlife. A land acquisition grant was written to the DNR for this property.

9. Technology

The City continues to join the 21 Century -- with initiatives for wireless connection of all office sites in the City, and in reporting programs for police -- being shared with the County and Ferris Police. We are also in the foreground of technology with aerial digital mapping of the Community. We continue to fund and add 'layers' to the mapping to help with utility locations and other planning and engineering tools.

10. Planning

By 2008 the City needs to have rewritten its community Masterplan. This helps obtain grants and to chart the direction of the City. This is a major undertaking as it involves many meetings including citizen forums. Funds have been appropriated to begin this effort in the 2007-08 budget.

11. Dial-A-Ride Transportation (DART)

With the improvements at the airport the present dispatch office of the DART system will be moving to the Public Works' facility. An addition is planned, and has been promised funding by MDOT during the 2008-9 State fiscal year.

12. Voting

The state implemented new voting machines in 2006. The City has completed the training and use of these new devices. The next (under consideration) move is to streamline the voting poll locations, making all locations handicapped accessible, and reducing the overall number of polling places.

13. Pave Streets and Alleys.

The regular paving program is looked to for additional improvements in transportation.

14. Downtown

The City completed a major analysis of the Community with consultant Hyett/Palma in 2006. There are many initiatives that are recommended including new streetscaping, wayfaring signage, village green, façade improvements, and downtown financing – to name a few. A grant of \$1,000,000 has been submitted to the State for possible funding of many of these initiatives.

15. Good Neighbors.

Increasing emphasis is taking place from this citizen group. They currently reward well done landscaping/housing improvements, support the polycart initiative, plan earth day pickups, and encourage recycling. New initiatives may include a pickup the neighborhood, screen dumpsters, clean downtown/parks, and housing standards.

16. Depot

The Chamber of Commerce, MCDC and Visitor's Bureau are presently located in cramped quarters on State Street in Mitchell Creek Park. The building was constructed by the Chamber many years ago on City Lands. The State of Michigan presently owns an historical depot on the east side of town which would make a fine office facility for these organizations. In fact the location of this depot on the White Pines Trail makes this location particularly attractive to the State and Local officials alike. The City has written an application to lease this facility from the State – and expects to fund the renovation with an 80% grant for historic preservation along old rail sites. The match may be obtained from the disposal of the old office building.

17. DNR Properties

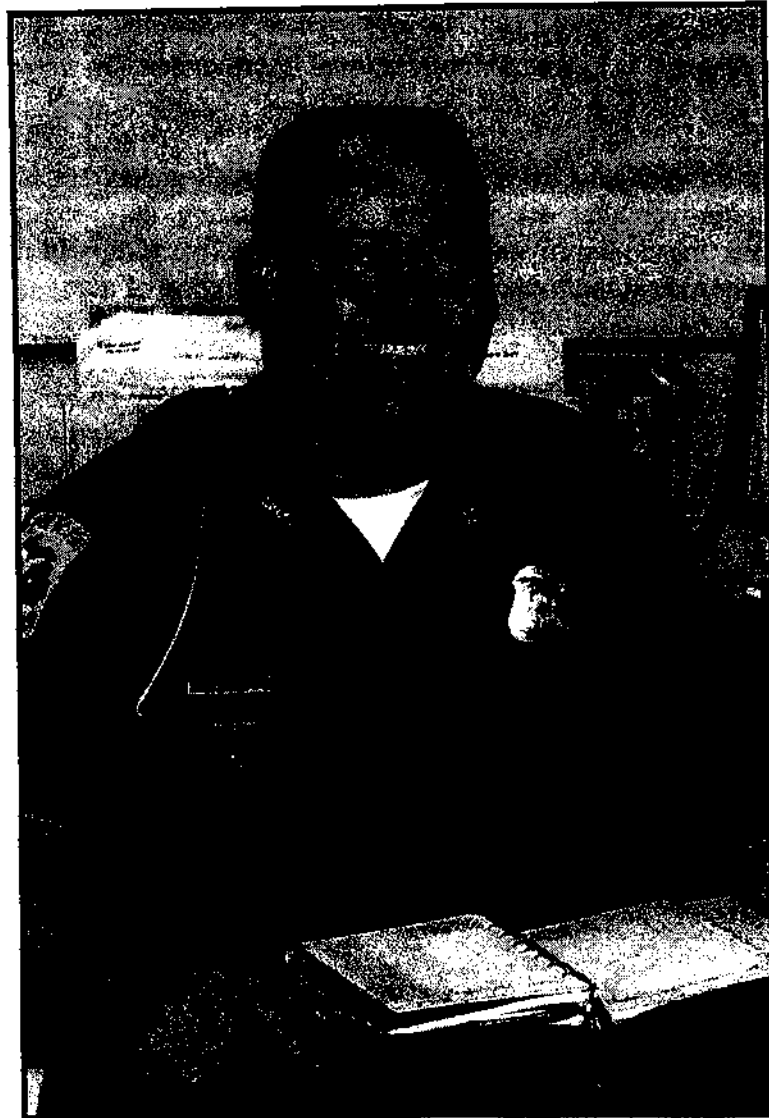
In researching the State owned properties for the Depot initiative, several properties have been noted as 'surplus' by the state including some on 4th Avenue, some adjacent to the North End Park, and next to the potential new park preserve site. As the State has a new program to utilize surplus lands, the City has initiated paperwork to obtain all these properties.



DEPARTMENTAL FOCUS



DEPARTMENT OF PUBLIC SAFETY –
Employees dedicated to service and committed to excellence



Frank West, Director of Public Safety

The Big Rapids Department of Public Safety employs 18 full time and three part time sworn personnel, and nine full time and 18 part paid fire staff. The administrative staff is one director, one deputy director, an administrative assistant, and a part time transcriptionist. The Department also employs six service officers who are students from Ferris State University.

The Big Rapids Department of Public Safety is located at 435 N. Michigan Avenue. It was constructed in 2002 after an intensive and comprehensive search and study by a committee made up of police and fire staff. One of the missions of the committee was to integrate a state of the art training facility that would serve as a community resource. Our community room can seat 90

people, and is used over 200 times a year to house police and fire training, non profit organization meetings at minimal cost, and also rented to corporate customers for training.

The Department prides itself in its community involvement. We host National Night out, Camp 911 for seniors, Special Olympics Torch Run, Safe Kids car seat clinics, and have been integrally involved in the Muskegon River Water Safety Committee. We have a school liaison officer, and two community policing staff working within our patrol ranks. All of these very worthwhile projects are a way for us to give back to our community.

The year 2006 saw the most dramatic change in personnel, structure, and staffing the Department has had to face. Director Kevin Courtney retired March 31, 2006 and a search committee was formed to locate a new Director. The committee then tasked the Department to reduce the administrative staff from two Deputy Directors to one. The close of 2006 saw the final placements of new staff, new assignments and final restructuring. The divisions, both police and fire, remained dedicated to their commitment of public safety throughout this transition.



Brian Miller, Detective

Police Activity

The police fleet contains five squad cars, an unmarked command car, two utility 4 X 4 blazers, two leased Harley Davidson motorcycles, and also bicycle and police equestrian patrols. The Department's Police Division statistical review once again shows that hard work by its dedicated officers continues to pay off. Our calls for service are down for the third year in a row, and most categories of crime continue to be at levels most cities would be very jealous of. Probably the most exciting news for 2006 is a 12 % decrease in traffic crashes in our city. Also of interest is that even with a very aggressive grant funded alcohol enforcement program, alcohol crime is also down substantially. We saw decreases in assaults (4% less than last year), fraud (10% less than last year), and no change in malicious destruction of property crime. Public order crimes remain constant from last year, with a noted decrease of 8% in operating while intoxicated. Disorderly and noise complaints were unchanged, although Ferris State University showed a record enrollment in 2006.

Drug related criminal activity remains a concern in our community and the Department is doing all it can. We assigned a second officer to the Central Michigan Enforcement Team (CMET) and although his assignment has only been for a small amount of 2006, the number of arrests made, drugs seized, and properties forfeited have taken a number of "players" off the streets of our city and neighboring communities.

The Department continues to work hard to provide public safety to our community and to cooperate with other law enforcement and fire agencies in our area to be the most effective and efficient resource for anyone who needs us. We stand by our motto "dedicated to service, committed to excellence".

Fire Activity

Our fire apparatus fleet contains one 100 foot aerial ladder truck, two Attack pumpers, two water tenders, a rescue truck, two 4 X 4 grass fire trucks, and a rescue boat for river and water rescue. We also house a third 4 X 4 truck that is grant funded to transport a regional WMD trailer, and a medical emergency trailer. For 2006 the most important statistic found in the Fire Division is zero fire related fatalities. Our property and content value loss for 2006 was \$132,465 of \$1,572,167 or 8.4%. The Fire Division completed the refurbishing and replacement of the water tank of Tender 1-7. This saved the city thousands of dollars and will supply our citizens with years of service. The total number of responses by the Fire Division in 2006 decreased 10% as compared to 2005. Medical emergencies and auto mobile collisions continue to be the largest categories of response.



Warren Hanson, Deputy Director of Public Safety

**CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN
FINANCIAL REPORTING**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting (Certificate of Achievement) to the City of Big Rapids for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. This was the 22nd consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR), whose contents conform to program standards. This report must satisfy both Generally Accepted Accounting Principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for a certificate.

ACKNOWLEDGMENT

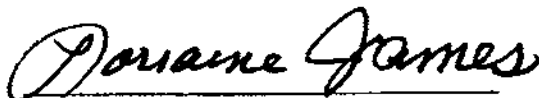
It is very appropriate that appreciation be expressed for the efficient and dedicated services of the City's Department of Finance. The maintenance of the daily financial reports, all investments, and the preparation of this comprehensive report were the supervisory responsibilities of City Treasurer, Lorraine James. She has been ably assisted by other finance/management area personnel, which include Jean Schneidt, Carla Staffen, Heidi Horan, Paul Cole, Barbara Obert, Melissa Ferens, Joyceann Francis, and Paula Weipert. Cheryl Colley contributed all photos. Big Rapids Printing, Big Rapids, Michigan was responsible for the reproduction of the artwork, covers and inserts. Frank West, Director of Public Safety, authored the Departmental Focus.

Excellent working relationships were established and maintained between the auditors and the municipal staff in the preparation of this annual financial report.

Respectfully submitted,



Stephen Sobers
City Manager



Lorraine James
City Treasurer

STATEMENT OF MANAGEMENT'S
RESPONSIBILITY FOR FINANCIAL STATEMENTS

Responsibility for the integrity of the financial data presented rests with the City. We believe the data to be accurate in all material aspects. These financial statements are prepared in accordance with Generally Accepted Accounting Principles applicable to city government and State Statues.

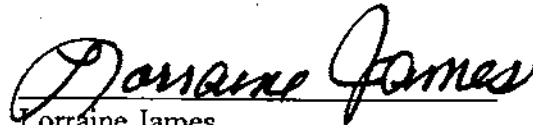
Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

Vredeveld Haefner LLC, independent certified public accountants, has audited the accompanying financial statements, and the supplemental financial information has been subjected to the auditing procedures applied in their audit, Vredeveld Haefner's report is included in the financial section of this report.

Respectfully submitted,



Stephen Sobers
City Manager



Lorraine James
City Treasurer

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Big Rapids
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



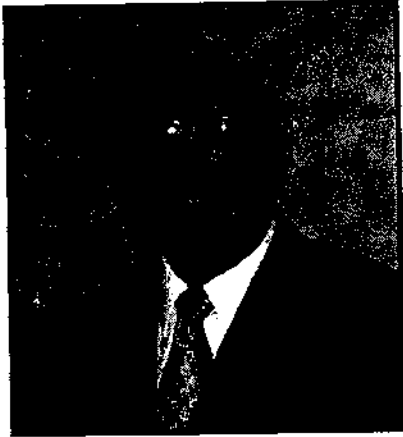
A handwritten signature in black ink, reading 'Ronald J. Harner'.

President

A handwritten signature in black ink, reading 'Jeffrey R. Enner'.

Executive Director

"You will love it here"! This is the message I've been cheerleading for the last 8 years. Now I have completed 4 terms as your Mayor, I'm still cheerleading the same message. This is my last report to you as I am term limited and it is time to elect a new Mayor.

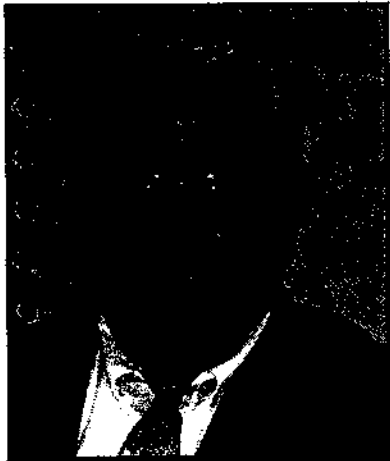


Edward Burch
Mayor

It has been my pleasure to work with a dedicated staff and commission in serving the City. Many awards have been received but we are on the edge of new challenges to prepare our City for the future. These challenges include the library needs, wastewater treatment plant, ladder truck replacement, continuation of Riverwalk, and most important, our Downtown. The Hyett/Palma "Cool Cities Blueprint for Michigan's Downtowns" master plan is being implemented by our DDA.

This fiscal report is also the last for City Treasurer, Lorraine James. Lorraine retired this year and she is followed by Lynne Fields. I know Lynne will continue to report on the City for the benefit of all citizens.

This fiscal report is our report to you on your city. Please promote and support your community.



Dan Rothstein
Mayor Pro Tem

At the eleventh hour of my last term as City Commissioner, it is time for reflection. I wish to thank the community for the privilege of serving on the Commission for the past eight years and for their involvement in so many ways. I also wish to thank both Steve Stilwell and Steve Sobers for their talent, dedication, and jobs well done. This thank you extends to all of the Department Heads, their staff, and all the City employees that work diligently to make our community a great place to live. Over these last eight years our accomplishments have been many and have covered a broad spectrum. Much remains to be accomplished and that is certainly how it should be!

AT BIG RAPIDS, MICHIGAN CITY OFFICIALS

(JUNE 30, 2007)

City Commission _____ Edward Burch, Mayor

Dan Rothstein, Mayor Pro Tem

Peggy Brennan

Tom Hogenson

Therese Harper

City Manager _____ Stephen Sobers

City Attorney _____ Eric D. Williams

City Clerk _____ Roberta R. Cline

City Treasurer/Assessor _____ Lorraine James

Engineer/Utilities Director _____ Donald Greiner

Income Tax Administrator _____ Paul B. Cole

Information Technology Manager _____ Timothy Moslener

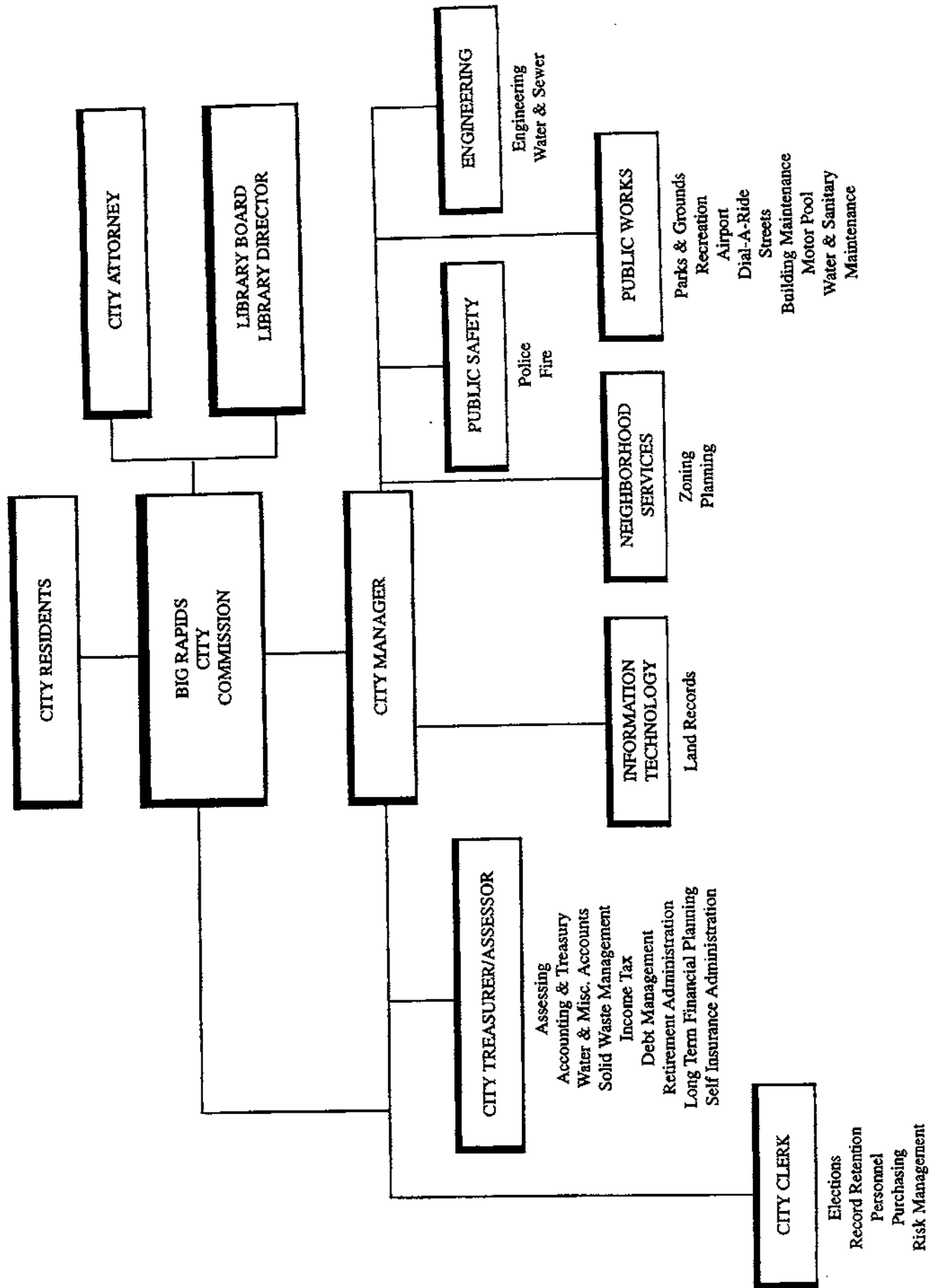
Library Director _____ Gaylynn Rorabaugh

Neighborhood Services Director _____ Mark Gifford

Transportation Supervisor _____ Deb Wilkinson

Public Safety Director _____ Frank West

Public Works Director _____ Timothy J. Vogel





Vredeveld Haefner LLC

CPA's and Consultants
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Grand Rapids, MI 49534
FAX (616) 828-0307

Douglas J. Vredeveld, CPA
(616) 446-7474

Peter S. Haefner, CPA
(616) 460-9388

INDEPENDENT AUDITORS' REPORT

September 24, 2007

Honorable Mayor and Members of the City Commission
City of Big Rapids, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Big Rapids, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Big Rapids, Michigan. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information for the City of Big Rapids, Michigan as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 24, 2007, on our consideration of the City of Big Rapids' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 25-30 and the required supplementary information are not a required part of the basic financial statements but are supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Big Rapids' basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and schedules, statistical tables and continuing disclosure are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non Profit Organizations*, and is also not a required part of the basic financial statements of the City of Big Rapids. The combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The introductory section, statistical tables and continuing disclosure have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Oradaxld Haefner LLC

Management's Discussion and Analysis

As management of the City of Big Rapids (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2007.

Financial Highlights

The financial statements, which follow this Management's Discussion and Analysis, provide these significant key financial highlights for the 2007 fiscal year as follows:

- An advance refunding of a portion of the outstanding 1999 and all of the outstanding 1995 Water Supply System Revenue Bonds resulted in a reduction of future debt service payments of approximately \$129,000.
- Grant funding of approximately \$700,000 was obtained for engineering and design costs associated with the anticipated rehabilitation of the wastewater treatment plant.
- Significant improvements were made to the City pool and related structure for the enjoyment of citizens.
- Grant funding was received for the purchase of a downtown structure which will be razed for additional public space.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements The Government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected revenues and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, and culture and recreation. The business-type activities of the City include wastewater, water, transportation, and sanitation operations.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Downtown Development Authority (DDA) and the Brownfield Redevelopment Authority for which the City is financially accountable. The current year was the first year of operations of the Brownfield Redevelopment Authority. Information for these component units is reported separately from the financial information presented for the primary government itself.

Fund financial statements A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund which is considered a major fund. Data is combined into a single aggregated presentation for the other governmental funds (non-major governmental funds). Individual fund data for each of the non-major governmental funds is provided in the form of combining statements and schedules.

The City adopts an annual appropriated budget for its General Fund and all special revenue funds as required by state law. A budgetary comparison statement has been provided for the major fund to demonstrate legal compliance.

Proprietary funds The City maintains 4 separate enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its wastewater, water, and sanitation activity, as well as nonmajor enterprise operations. Internal service funds are accounting devices used to accumulate and allocate costs internally among the City's various functions. The City utilizes internal service funds to account for its motor pool, DPW services, and self insurance services. Because these services primarily benefit the City's governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the wastewater, water, and sanitation operations, which are considered to be major funds of the City. Conversely, nonmajor enterprise funds and internal service funds are combined into single, aggregate presentations in the proprietary fund financial statements.

Fiduciary funds Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resource of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This is limited to this discussion and analysis and required Act 345 pension information. Supplemental information follows the required Act 345 pension information and includes combining and individual fund statements and schedules.

Government-wide Financial Analysis

Statement of Net Assets As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City, assets exceeded liabilities by \$29,088,120 at the close of the most recent fiscal year. The following chart illustrates the composition of net assets.

City of Big Rapids Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2007	2006	2007	2006	2007	2006
Assets						
Current and other assets	\$5,305,251	\$5,250,602	\$3,686,411	\$3,093,835	\$8,991,662	\$8,344,437
Capital assets	13,586,016	12,690,543	16,441,660	16,180,311	30,027,676	28,870,854
Total assets	18,891,267	17,941,145	20,128,071	19,274,146	39,019,338	37,215,291
Liabilities						
Current liabilities	1,161,615	1,152,220	437,972	325,358	1,599,587	1,477,578
Long-term liabilities	4,363,904	4,496,581	3,967,727	4,102,426	8,331,631	8,599,007
Total liabilities	5,525,519	5,648,801	4,405,699	4,427,784	9,931,218	10,076,585
Net assets						
Invested in capital assets, net of related debt	9,516,016	8,560,543	12,473,933	12,077,885	21,989,949	20,638,428
Restricted	1,369,148	1,602,998	164,015	123,062	1,533,163	1,726,060
Unrestricted	2,480,584	2,128,803	3,084,424	2,645,415	5,565,008	4,774,218
Total net assets	\$13,365,748	\$12,292,344	\$15,722,372	\$14,846,362	\$29,088,120	\$27,138,706

By far the largest portion of the City's net assets in the amount of 76% reflects its investment in capital assets (e.g., land, buildings, machinery and equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets in the amount of 5% represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets in the amount of \$5,565,008, or 19%, may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, for the government as a whole, governmental activities, and the business-type activities.

Statement of Activities The City's total revenue for the fiscal year ended June 30, 2007, was \$14,552,061 while total cost of all programs and services was \$12,602,647. This results in an increase in net asset of \$1,949,414. The following table presents a summary of the changes in net assets for the years ended June 30. Certain revenues, expenses, and transfers have been classified differently in 2007 than in 2006.

City of Big Rapids Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues						
Charges for services	\$876,974	\$1,009,067	\$4,553,017	\$4,693,447	\$5,429,991	\$5,702,514
Operating grants and contributions	1,424,240	1,696,417	212,354	200,722	1,636,594	1,897,139
Capital grants and contributions	514,493	336,402	657,371	765,207	1,171,864	1,101,609
General revenues						
Property taxes	2,753,776	2,372,491	-	-	2,753,776	2,372,491
Income taxes	1,744,354	1,728,410	-	-	1,744,354	1,728,410
State shared revenues	1,437,437	1,462,006	-	-	1,437,437	1,462,006
Investment earnings	180,809	115,441	147,199	15,511	328,008	130,952
Other	29,757	-	20,280	-	50,037	-
Total revenues	8,961,840	8,720,234	5,590,221	5,674,887	14,552,061	14,395,121
Expenses						
General government	2,067,674	2,141,931	-	-	2,067,674	2,141,931
Public safety	3,343,364	3,346,255	-	-	3,343,364	3,346,255
Public works	1,468,931	1,435,805	-	-	1,468,931	1,435,805
Culture and recreation	1,123,690	1,363,866	-	-	1,123,690	1,363,866
Interest on long-term debt	178,477	184,001	-	-	178,477	184,001
Wastewater	-	-	1,589,367	1,668,085	1,589,367	1,668,085
Water	-	-	1,676,767	1,725,842	1,676,767	1,725,842
Transportation	-	-	441,745	416,717	441,745	416,717
Sanitation	-	-	712,632	643,884	712,632	643,884
Total expenses	8,182,136	8,471,858	4,420,511	4,454,528	12,602,647	12,926,386
Increase (decrease) before transfers	779,704	248,376	1,169,710	1,220,359	1,949,414	1,468,735
Transfers in (out)	293,700	294,000	(293,700)	(294,000)	-	-
Increase (decrease) in net assets	1,073,404	542,376	876,010	926,359	1,949,414	1,468,735
Net assets – beginning	12,292,344	11,749,968	14,846,362	13,920,003	27,138,706	25,669,971
Net assets – ending	\$13,365,748	\$12,292,344	\$15,722,372	\$14,846,362	\$29,088,120	\$27,138,706

Governmental Activities The preceding table shows that the governmental activities increased the City's net assets by \$1,073,404 during this fiscal year, accounting for approximately 53% of the total increase in net assets. This increase is primarily the result of additions to capital assets exceeding depreciation expense.

Business-type Activities Business-type activities increased the City's net assets by \$876,010, or approximately 47% of the total increase in the City's net assets.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,420,758 an increase of \$104,716 from the prior year.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, reserves of \$133,363 were outstanding for long-term assets, designations by the board for future activity were \$413,359 leaving unreserved and undesignated fund balance of \$1,448,166. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 22% of total general fund expenditures.

Proprietary funds The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The City of Big Rapids' enterprise operations consist of four separate and distinct activities. The wastewater, water, transportation and sanitation funds provide service to most residents and businesses of the City. The water and transportation funds experienced declines in net assets of \$125,312 and \$68,409 respectively while the wastewater and sanitation funds increased net assets by \$1,056,092 and \$13,639 respectively. A significant portion of the increase recorded in the wastewater fund was the result of grant funding for wastewater plant engineering and design costs.

General Fund Budgetary Highlights

Differences between the general fund original and final amended budgets were primarily the result of income tax, federal and state funding exceeding initial expectations. On the expenditure side, receipt of additional federal grants resulted in additional disbursements for parking infrastructure.

Capital Asset and Debt Administration

Capital Assets The City's investment in capital assets for its governmental and business-type activities as of June 30, 2007, amounted to \$30,027,676 (net of accumulated depreciation). Of this amount, \$13,586,016 was for its governmental type activities and \$16,441,660 was for its business-type activities. This investment in capital assets includes land, buildings, equipment and vehicles, and infrastructure.

Major capital asset events during the current fiscal year included the following:

- Engineering and design work for the wastewater treatment plant of approximately \$650,000.
- Additional street infrastructure of approximately \$600,000.
- Vehicle and land additions of approximately \$500,000.

Additional information on the City's capital assets can be found in the notes to these financial statements.

Long-term debt. At the end of the current fiscal year, the City had total long-term debt including compensated absences outstanding of \$8,331,631. Of this amount, \$4,363,904 was for governmental activities while \$3,967,727 was for business type activities.

The City's total long-term debt decreased by \$267,376 during the current fiscal year.

The City debt limit, as defined by statute, is ten percent (10%) of state equalized property values, which currently equals \$17,552,340. Total City's long-term debt subject to this limit is \$3,955,000.

Additional information on the City's long-term debt can be found in the notes these financial statements.

Economic Factors and Next Year's Budgets and Rates

The following economic factors were considered in preparing the City's budget for the 2008 fiscal year:

- Flat performance of the State of Michigan's economy will likely result in stagnant or additional decreases in state funding.
- Wage increases as identified in employment agreements.
- Continued moderate increases in property values and income tax receipts.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Treasurer, City of Big Rapids, 226 N. Michigan Ave., Big Rapids, MI 49307.

CITY OF BIG RAPIDS
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	Downtown Development Authority	Brownfield Redevelopment Authority
Assets					
Cash and pooled investments	\$ 3,968,497	\$ 1,767,350	\$ 5,735,847	\$ -	\$ 2,067
Accounts receivable	438,244	454,742	892,986	-	-
Special assessments receivable	43,923	-	43,923	-	-
Loans receivable	-	-	-	98,992	-
Prepaid and other assets	128,310	163,601	291,911	-	-
Due from other governments	505,895	632,723	1,138,618	45,095	-
Inventory	87,019	123,480	210,499	-	-
Property held for sale	93,363	-	93,363	-	-
Advance to agency fund	40,000	-	40,000	-	-
Restricted assets					
Cash and pooled investments	-	544,515	544,515	-	-
Capital assets					
Land	4,761,250	374,821	5,136,071	-	-
Construction in progress	-	658,580	658,580	-	-
Depreciable capital assets, net	8,824,766	15,408,259	24,233,025	-	-
Total assets	18,891,267	20,128,071	39,019,338	144,087	2,067
Liabilities					
Accounts payable	144,409	245,172	389,581	6,055	-
Accrued liabilities	741,927	129,236	871,163	-	-
Due to other governments	166,621	39,149	205,770	-	-
Customer deposits	-	24,415	24,415	-	-
Unearned revenue	108,658	-	108,658	-	-
Noncurrent liabilities					
Compensated absences	293,904	-	293,904	-	-
Premium on bonds	-	37,727	37,727	-	-
Due within one year	160,000	335,000	495,000	-	-
Due in more than one year	3,910,000	3,595,000	7,505,000	-	-
Total liabilities	5,525,519	4,405,699	9,931,218	6,055	-
Net assets					
Invested in capital assets, net of related debt	9,516,016	12,473,933	21,989,949	-	-
Restricted for					
Major streets	575,601	-	575,601	-	-
Local streets	554,313	-	554,313	-	-
Drug law enforcement	46,147	-	46,147	-	-
Jennings projects	4,493	-	4,493	-	-
Miller and Ahlgren projects	5,206	-	5,206	-	-
Riverwalk projects	3,349	-	3,349	-	-
River safety	24,944	-	24,944	-	-
Capital projects	136,002	-	136,002	-	-
Debt service	-	164,015	164,015	-	-
Permanent trust					
Playscape - expendable portion	2,093	-	2,093	-	-
Playscape - corpus	17,000	-	17,000	-	-
Unrestricted	2,480,584	3,084,424	5,565,008	138,032	2,067
Total net assets	\$ 13,365,748	\$ 15,722,372	\$ 29,088,120	\$ 138,032	\$ 2,067

The accompanying notes are an integral part of these financial statements.

CITY OF BIG RAPIDS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Primary government				
Governmental activities				
General government	\$ 2,067,674	\$ 132,859	\$ 6,567	\$ -
Public safety	3,343,364	300,782	436,236	221,287
Public works	1,468,931	291,858	743,165	293,206
Culture and recreation	1,123,689	151,474	238,272	-
Interest on long-term debt	178,477	-	-	-
Total governmental activities	8,182,135	876,973	1,424,240	514,493
Business-type activities				
Wastewater	1,589,367	2,010,741	-	657,371
Water	1,676,767	1,682,794	-	-
Transportation	441,745	70,211	212,354	-
Sanitation	712,632	789,271	-	-
Total business-type activities	4,420,511	4,553,017	212,354	657,371
Total primary government	\$ 12,602,646	\$ 5,429,990	\$ 1,636,594	\$ 1,171,864
Component units				
Downtown Development Authority	\$ 181,481	\$ 5,239	\$ -	\$ 143,552
Brownfield Redevelopment Authority	20,933	-	23,000	-
Total component units	\$ 202,414	\$ 5,239	\$ 23,000	\$ 143,552

(Continued)

The accompanying notes are an integral part of these financial statements.

CITY OF BIG RAPIDS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Downtown Development Authority	Brownfield Redevelopment Authority
Changes in net assets					
Net (expense) revenue	\$ (5,366,429)	\$ 1,002,231	\$ (4,364,198)	\$ (32,690)	\$ 2,067
General revenues					
Property taxes	2,753,776	-	2,753,776	21,618	-
Income taxes	1,744,354	-	1,744,354	-	-
State shared revenues	1,437,437	-	1,437,437	-	-
Unrestricted investment earnings	180,809	147,199	328,008	1,359	-
Other general revenues	29,757	20,280	50,037	-	-
Transfers - internal activities	293,700	(293,700)	-	-	-
Total general revenues and transfers	6,439,833	(126,221)	6,313,612	22,977	-
Change in net assets	1,073,404	876,010	1,949,414	(9,713)	2,067
Net asset, beginning of year	12,292,344	14,846,362	27,138,706	147,745	-
Net assets, end of year	\$ 13,365,748	\$ 15,722,372	\$ 29,088,120	\$ 138,032	\$ 2,067

(Concluded)

The accompanying notes are an integral part of these financial statements.

CITY OF BIG RAPIDS
GOVERNMENTAL FUNDS
BALANCE SHEET

JUNE 30, 2007

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 1,793,821	\$ 1,545,191	\$ 3,339,012
Accounts receivable	437,859	-	437,859
Special assessment receivable	4,049	39,874	43,923
Due from other governments	351,707	154,188	505,895
Advance to other funds	40,000	-	40,000
Inventory	-	14,000	14,000
Property held for sale	93,363	-	93,363
Total assets	<u>\$ 2,720,799</u>	<u>\$ 1,753,253</u>	<u>\$ 4,474,052</u>
Liabilities and fund balances			
Liabilities			
Accounts payable	\$ 25,862	\$ 109,757	\$ 135,619
Accrued liabilities	587,342	11,131	598,473
Due to other governments	-	166,621	166,621
Deferred revenue	112,707	39,874	152,581
Total liabilities	<u>725,911</u>	<u>327,383</u>	<u>1,053,294</u>
Fund balances			
Reserved for			
Advances	40,000	-	40,000
Property held for sale	93,363	-	93,363
Restricted contributions	-	13,048	13,048
Permanent fund corpus	-	17,000	17,000
Inventory	-	14,000	14,000
Unreserved			
Designated for capital projects	413,359	-	413,359
Undesignated	1,448,166	-	1,448,166
Undesignated reported in nonmajor funds			
Special revenue funds	-	1,243,727	1,243,727
Capital projects funds	-	136,002	136,002
Permanent funds	-	2,093	2,093
Total fund balances	<u>1,994,888</u>	<u>1,425,870</u>	<u>3,420,758</u>
Total liabilities and fund balances	<u>\$ 2,720,799</u>	<u>\$ 1,753,253</u>	<u>\$ 4,474,052</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BIG RAPIDS

RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS

JUNE 30, 2007

Fund balances - total governmental funds	\$ 3,420,758
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Amounts reported for *governmental activities* in the statement of net assets are different because

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.

Add - land	4,761,250
Add - capital assets (net of accumulated depreciation)	7,750,222

Certain assets are not due and receivable in the current period and therefore are offset with deferred revenue in the funds.

Add - special assessments deferred receivable	43,923
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Internal service funds are used by management to charge the costs of centralized services, to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities.

Add - net assets of governmental activities accounted for in the internal service funds	1,826,325
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Certain liabilities are not due and payable in the current period and therefore are not reported in the funds.

Deduct - compensated absences payable	(293,904)
Deduct - bonds payable	(4,070,000)
Deduct - accrued interest on bonds payable	<u>(72,826)</u>

Net assets of governmental activities	<u>\$ 13,365,748</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF BIG RAPIDS

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2007

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Revenues			
Taxes	\$ 4,498,130	\$ -	\$ 4,498,130
Intergovernmental revenues			
Federal	140,155	237,799	377,954
State	1,666,969	759,201	2,426,170
Licenses and permits	41,821	-	41,821
Charges for services	547,152	96,232	643,384
Fines	84,668	142,470	227,138
Special assessments	12,667	8,137	20,804
Investment earnings	139,455	100,135	239,590
Miscellaneous	75,668	213,191	288,859
Total revenues	<u>7,206,685</u>	<u>1,557,165</u>	<u>8,763,850</u>
Expenditures			
Current			
General government	2,133,703	939	2,134,642
Public safety	2,848,971	453,562	3,302,533
Public works	1,030,160	1,016,474	2,046,634
Culture and recreation	304,252	921,135	1,225,387
Debt service			
Principal	135,000	-	135,000
Interest	180,938	-	180,938
Total expenditures	<u>6,633,024</u>	<u>2,392,110</u>	<u>9,025,134</u>
Revenues over (under) expenditures	<u>573,661</u>	<u>(834,945)</u>	<u>(261,284)</u>
Other financing sources (uses)			
Transfers in	636,400	648,500	1,284,900
Transfers out	(661,000)	(257,900)	(918,900)
Total other financing sources (uses)	<u>(24,600)</u>	<u>390,600</u>	<u>366,000</u>
Net changes in fund balances	549,061	(444,345)	104,716
Fund balances, beginning of year	<u>1,445,827</u>	<u>1,870,215</u>	<u>3,316,042</u>
Fund balances, end of year	<u>\$ 1,994,888</u>	<u>\$ 1,425,870</u>	<u>\$ 3,420,758</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BIG RAPIDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

Net changes in fund balances - total governmental funds	\$ 104,716
Amounts reported for <i>governmental activities</i> in the statement of activities are different because	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Add - capital outlay	1,082,972
Deduct - depreciation expense	(331,530)
Special assessments receivable are long-term in nature and are collectable over several years. However the current receipts are reflected as revenues on the fund statements.	
Deduct - special assessment receipts	(11,240)
Repayment of bond or note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Add - principal payments on debt	150,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct - increase in compensated absences	(17,323)
Add - decrease in accrued interest	2,461
Internal service funds are used by management to charge the costs of certain services to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	
Add - increase in net assets from the internal service funds	<u>93,348</u>
Change in net assets of governmental activities	<u>\$ 1,073,404</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BIG RAPIDS

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>Amount</u>	<u>Positive</u> <u>(Negative)</u>
Revenues				
Taxes				
Property taxes	\$ 2,729,900	\$ 2,742,900	\$ 2,753,776	\$ 10,876
City income tax	1,512,000	1,730,000	1,744,354	14,354
Intergovernmental revenues				
Federal	-	128,000	140,155	12,155
State	1,620,000	1,722,000	1,666,969	(55,031)
Licenses and permits	61,800	41,800	41,821	21
Charges for services	234,900	557,700	547,152	(10,548)
Fines	123,100	99,100	84,668	(14,432)
Special assessments	7,500	7,500	12,667	5,167
Investment earnings	65,400	120,400	139,455	19,055
Miscellaneous	215,600	75,500	75,668	168
Total revenues	<u>6,570,200</u>	<u>7,224,900</u>	<u>7,206,685</u>	<u>(18,215)</u>
Expenditures				
Current				
General government	2,248,400	2,361,700	2,133,703	227,997
Public safety	2,853,600	2,864,800	2,848,971	15,829
Public works	832,100	1,039,900	1,030,160	9,740
Culture and recreation	385,000	331,000	304,252	26,748
Debt service				
Principal	-	135,000	135,000	-
Interest and fiscal charges	-	181,700	180,938	762
Total expenditures	<u>6,319,100</u>	<u>6,914,100</u>	<u>6,633,024</u>	<u>281,076</u>
Revenues over (under) expenditures	<u>251,100</u>	<u>310,800</u>	<u>573,661</u>	<u>262,861</u>
Other financing sources (uses)				
Transfers in	636,400	648,300	636,400	(11,900)
Transfers out	(560,000)	(607,900)	(661,000)	(53,100)
Total other financing sources (uses)	<u>76,400</u>	<u>40,400</u>	<u>(24,600)</u>	<u>(65,000)</u>
Net changes in fund balance	<u>327,500</u>	<u>351,200</u>	<u>549,061</u>	<u>197,861</u>
Fund balance, beginning of year	<u>1,445,827</u>	<u>1,445,827</u>	<u>1,445,827</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,773,327</u>	<u>\$ 1,797,027</u>	<u>\$ 1,994,888</u>	<u>\$ 197,861</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BIG RAPIDS
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2007

Assets	Enterprise Funds			
	Wastewater	Water	Sanitation	Nonmajor
Current assets				
Cash and pooled investments	\$ 1,561,491	\$ 172,390	\$ 17,446	\$ 16,023
Accounts receivable	192,026	185,484	76,587	645
Due from other governments	625,726	-	-	6,997
Prepaid and other assets	-	163,601	-	-
Inventory	-	123,480	-	-
Restricted cash and pooled investments	156,071	388,444	-	-
Total current assets	2,535,314	1,033,399	94,033	23,665
Capital assets				
Land	31,288	343,533	-	-
Construction in progress	658,580	-	-	-
Buildings	3,413,836	2,661,268	-	-
Vehicles and equipment	5,231,184	2,383,430	-	622,875
Infrastructure	3,842,772	10,613,540	-	-
Less accumulated depreciation	(6,209,886)	(6,634,452)	-	(516,308)
Net capital assets	6,967,774	9,367,319	-	106,567
Total assets	9,503,088	10,400,718	94,033	130,232
Liabilities				
Current liabilities				
Accounts payable	176,347	13,728	54,569	528
Accrued liabilities	30,026	41,870	-	11,840
Due to other governments	-	-	-	39,149
Customer deposits	-	24,415	-	-
Payable from restricted assets				
Accrued interest	14,047	31,453	-	-
Current portion of long-term debt	135,000	200,000	-	-
Total current liabilities	355,420	311,466	54,569	51,517
Long-term liabilities				
Premium/Discount on bonds	(10,200)	47,927	-	-
Bonds payable, net of current portion	790,000	2,805,000	-	-
Total long-term liabilities	779,800	2,852,927	-	-
Total liabilities	1,135,220	3,164,393	54,569	51,517
Net assets				
Investment in capital assets net of related debt	6,052,974	6,314,392	-	106,567
Restricted for:				
Revenue bond retirement	7,024	156,991	-	-
Unrestricted (deficit)	2,307,870	764,942	39,464	(27,852)
Total net assets	\$ 8,367,868	\$ 7,236,325	\$ 39,464	\$ 78,715

The accompanying notes are an integral part of these financial statements.

Enterprise Fund Total	Governmental Activities	
	Internal Service Funds	
\$ 1,767,350	\$ 629,485	
454,742	385	
632,723	-	
163,601	128,310	
123,480	73,019	
544,515	-	
<u>3,686,411</u>	<u>831,199</u>	
374,821	-	
658,580	-	
6,075,104	1,631,039	
8,237,489	1,362,325	
14,456,312	-	
(13,360,646)	(1,918,820)	
<u>16,441,660</u>	<u>1,074,544</u>	
<u>20,128,071</u>	<u>1,905,743</u>	
245,172	8,790	
83,736	70,628	
39,149	-	
24,415	-	
45,500	-	
335,000	-	
<u>772,972</u>	<u>79,418</u>	
37,727	-	
3,595,000	-	
<u>3,632,727</u>	<u>-</u>	
<u>4,405,699</u>	<u>79,418</u>	
12,473,933	1,074,544	
164,015	-	
3,084,424	751,781	
<u>\$ 15,722,372</u>	<u>\$ 1,826,325</u>	

CITY OF BIG RAPIDS

PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

	Enterprise Funds			
	Wastewater	Water	Sanitation	Nonmajor
Operating revenue				
Charges for services	\$ 2,010,741	\$ 1,682,794	\$ 789,271	\$ 70,211
Other	11,141	9,139	-	-
Total operating revenue	2,021,882	1,691,933	789,271	70,211
Operating expense				
Salaries and wages	317,838	295,923	-	218,547
Benefits	135,609	145,029	-	32,775
DPW services	136,500	103,000	22,000	-
Materials and supplies	115,283	92,212	4,859	1,265
Gas and oil	-	-	-	33,308
Utilities	159,883	148,407	-	7,806
Repair and maintenance	92,212	156,084	-	51,231
Equipment rentals	46,247	80,855	21,872	-
Contracted services	149,354	37,121	663,901	1,600
Professional fees	18,749	17,152	-	3,000
Insurance	31,252	19,473	-	8,965
Depreciation	338,693	373,831	-	81,823
Miscellaneous	2,437	10,106	-	1,425
Total operating expense	1,544,057	1,479,193	712,632	441,745
Operating income (loss)	477,825	212,740	76,639	(371,534)
Non-operating revenue (expense)				
Federal grants	31,645	-	-	63,884
State grants	625,726	-	-	148,470
Miscellaneous	-	-	-	-
Investment earnings	109,606	36,622	-	971
Interest expense	(45,310)	(197,574)	-	-
Total non-operating revenue (expense)	721,667	(160,952)	-	213,325
Income (loss) before transfers	1,199,492	51,788	76,639	(158,209)
Transfers				
Transfers in	-	-	-	125,000
Transfers out	(143,400)	(177,100)	(63,000)	(35,200)
Total transfers	(143,400)	(177,100)	(63,000)	89,800
Changes in net assets	1,056,092	(125,312)	13,639	(68,409)
Net assets, beginning of year	7,311,776	7,361,637	25,825	147,124
Net assets, end of year	\$ 8,367,868	\$ 7,236,325	\$ 39,464	\$ 78,715

The accompanying notes are an integral part of these financial statements.

Enterprise Fund <u>Total</u>	Governmental Activities	
	<u>Internal Service Funds</u>	
\$ 4,553,017	\$	2,387,352
20,280		9,044
<u>4,573,297</u>		<u>2,396,396</u>
832,308		615,026
313,413		303,297
261,500		-
213,619		15,917
33,308		85,957
316,096		23,611
299,527		80,039
148,974		2,101
851,976		30,232
38,901		2,766
59,690		971,016
794,347		198,689
13,968		985
<u>4,177,627</u>		<u>2,329,636</u>
<u>395,670</u>		<u>66,760</u>
95,529		33,000
774,196		-
-		31,885
147,199		34,003
(242,884)		-
<u>774,040</u>		<u>98,888</u>
<u>1,169,710</u>		<u>165,648</u>
125,000		-
(418,700)		(72,300)
<u>(293,700)</u>		<u>(72,300)</u>
876,010		93,348
<u>14,846,362</u>		<u>1,732,977</u>
\$ 15,722,372	\$	1,826,325

CITY OF BIG RAPIDS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007

	Enterprise Funds			
	Wastewater	Water	Sanitation	Nonmajor
Cash flows from operating activities				
Receipts from internal services provided	\$ -	\$ -	\$ -	\$ -
Receipts from customers and users	2,020,512	1,709,518	785,934	70,856
Payments to employees	(452,861)	(442,023)	-	(250,387)
Payments to suppliers	(620,514)	(661,154)	(707,687)	(105,063)
Net cash provided by (used in) operating activities	947,137	606,341	78,247	(284,594)
Cash flows from non-capital financing activities				
Operating grants	-	-	-	193,711
Transfers in	-	-	-	125,000
Transfers out	(143,400)	(177,100)	(63,000)	(35,200)
Net cash provided by (used in) non-capital financing activities	(143,400)	(177,100)	(63,000)	283,511
Cash flows from capital and related financing activities				
Interest expense	(43,610)	(207,773)	-	-
Capital grants	339,799	-	-	-
Principal paid on bonds	(125,000)	(175,000)	-	-
Gain on sale of capital assets	-	-	-	-
Acquisitions of capital assets	(967,076)	(88,621)	-	-
Net cash provided by (used in) capital and related financing activities	(795,887)	(471,394)	-	-
Cash flows from investing activities				
Interest income	109,606	36,169	-	971
Net increase (decrease) in cash and pooled investments	117,456	(5,984)	15,247	(112)
Cash and pooled investments, beginning of year	1,600,106	566,818	2,199	16,135
Cash and pooled investments, end of year	\$ 1,717,562	\$ 560,834	\$ 17,446	\$ 16,023
Cash flows from operating activities				
Operating income (loss)	\$ 477,825	\$ 212,740	\$ 76,639	\$ (371,534)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities				
Depreciation	338,693	373,831	-	81,823
Changes in operating assets and liabilities which provided (used) cash				
Accounts receivable	(1,370)	17,585	(3,337)	(645)
Inventory	-	-	-	4,751
Prepaid assets and other items	-	-	-	-
Accounts payable	131,403	3,256	4,945	76
Accrued liabilities	586	(1,071)	-	935
Net cash provided by (used in) operating activities	\$ 947,137	\$ 606,341	\$ 78,247	\$ (284,594)

The accompanying notes are an integral part of these financial statements.

Enterprise Fund <u>Total</u>	Governmental Activities	
	<u>Internal Service Funds</u>	
\$ -	\$ 2,399,366	
4,586,820	-	
(1,145,271)	(911,687)	
<u>(2,094,418)</u>	<u>(1,359,778)</u>	
<u>1,347,131</u>	<u>127,901</u>	
193,711	-	
125,000	-	
<u>(418,700)</u>	<u>(72,300)</u>	
<u>(99,989)</u>	<u>(72,300)</u>	
(251,383)	-	
339,799	33,000	
(300,000)	-	
-	31,885	
<u>(1,055,697)</u>	<u>(342,721)</u>	
<u>(1,267,281)</u>	<u>(277,836)</u>	
<u>146,746</u>	<u>34,003</u>	
126,607	(188,232)	
<u>2,185,258</u>	<u>817,717</u>	
<u>\$ 2,311,865</u>	<u>\$ 629,485</u>	
\$ 395,670	\$ 66,760	
794,347	198,689	
12,233	2,970	
4,751	-	
-	(128,310)	
139,680	7,500	
<u>450</u>	<u>(19,708)</u>	
<u>\$ 1,347,131</u>	<u>\$ 127,901</u>	

CITY OF BIG RAPIDS
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2007

	Pension Trust Fund	Agency Funds
Assets		
Cash and pooled investments	\$ 61,060	\$ 95,328
Investments		
Stock mutual funds	3,368,441	-
Bond mutual funds	2,172,361	-
Accounts receivable	<u>8,862</u>	<u>76,111</u>
Total assets	<u>5,610,724</u>	<u>\$ 171,439</u>
Liabilities		
Accounts payable	20,349	\$ 51,446
Due to other governmental units	-	79,993
Advances from other funds	<u>-</u>	<u>40,000</u>
Total liabilities	<u>20,349</u>	<u>\$ 171,439</u>
Net assets		
Reserved for employees' pension benefits	<u>\$ 5,590,375</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF BIG RAPIDS
PENSION TRUST FUND
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Pension Trust Fund</u>
Additions	
Contributions:	
Employer	\$ 466,279
Employee	<u>116,581</u>
Total contributions	582,860
Investment earnings	<u>835,306</u>
Total Additions	<u>1,418,166</u>
Deductions	
Benefits	652,618
Refunds of contributions	279,150
Administrative expenses	<u>14,978</u>
Total deductions	<u>946,746</u>
Net increase (decrease)	471,420
Net assets, Beginning of year	<u>5,118,955</u>
Net assets, end of year	<u>\$ 5,590,375</u>

The accompanying notes are an integral part of these financial statements.

CITY OF BIG RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Big Rapids, Michigan (the "City") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the significant policies.

Reporting Entity

These financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the City's operations, so data from these units are combined with data of the primary government. The City has no blended component units. Discretely presented component units are reported in a separate column in the financial statements to emphasize they are legally separate from the City.

Discretely Presented Component Units

The component unit columns in the government-wide financial statements include the financial data of the Downtown Development Authority (DDA) and the Brownfield Redevelopment Authority. These component units provide services to the businesses located within the districts. They are reported in a separate column to emphasize they are legally separate from the City.

The DDA was created to correct and prevent deterioration in the downtown area and promote economic growth within downtown. The DDA governing body consists of individuals that are appointed by the City's Commission. The City Commission approves the DDA's budget and has the ability to significantly influence operations of the DDA. Financial statements are not separately issued for the DDA.

The Brownfield Redevelopment Authority accounts for captured tax revenue on specific properties within the City that have been identified and approved by the State of Michigan as brownfields requiring site reclamation. These revenues are used to reimburse property owners for expenditures incurred for brownfield cleanup. The City Commission appoints the governing body of the Brownfield Redevelopment Authority. Financial statements are not separately issued for the DDA.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are charges between enterprise functions and other various functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

CITY OF BIG RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with

a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for reimbursement-based grants and interest which use a one year collection period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes, state revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. The principal operating revenues of the City's internal service funds are charges to City departments for repairs and equipment utilization, public works department services, and insurance coverage. Operating expenses for the enterprise funds include depreciation on capital assets, labor, supplies and contracted services. Operating expenses for the internal funds include the cost of services (including claims), administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF BIG RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The *Wastewater Enterprise Fund* is used to account for the operations of the City's wastewater department that provides sewer services on a user charge basis.

The *Water Enterprise Fund* is used to account for the operations of the City's water department that provides water services on a user charge basis.

The *Sanitation Fund* is used to account for the cost of collecting and disposing of refuse on a user charge basis.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources (other than permanent trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

The *Capital Projects Fund* accounts for the accumulation and disbursement of resources for the construction of governmental fund capital projects.

The *Permanent Fund* is used to account for resources that are legally restricted to the extent that only earnings, and not principal may be used for purposes that support the City programs.

The *Enterprise Funds* are used to account for operations of the City that are financed by charges for the services provided.

The *Internal Service Funds* are used to account for shared services, equipment usage, and insurance coverage provided to the City departments and funds on a cost reimbursement basis.

The *Pension Trust Fund* is used to account for the operations of the City Act 345 Pension Plan which provides pension benefits to Public Safety Department employees.

The *Agency Funds* are used to account for the collection and disbursement of funds that are collected on behalf of outside governments or other parties.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed by both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resource as they are needed.

CITY OF BIG RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

Budgets and Budgetary Accounting

Comparisons to budget are presented for the general and special revenue funds. General and special revenue funds adopt a legal budget with remaining funds maintaining budgets as a management control device. The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Commission a proposed operating budget for the fiscal year commencing the following July 1. The operating budget is adopted by activity.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed for the governmental fund types as a management control device.
5. Budgets for the general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual budgets lapse at fiscal year end.
6. Adoption and amendments of all budgets used by the City are governed by Michigan state law. The appropriations resolution is based on the projected expenditures budgets of the department heads of the City. Any amendment to the original budget must meet the requirements of Michigan law. Any revisions that alter the total expenditures of any department must be approved by the City Commission. The City Manager is authorized to transfer budgeted amounts within a department subject to the condition that the total expenditures do not exceed the approved appropriations by department. Thus the legal level of budgetary control is at the department level. Supplemental appropriations were necessary during the year.

Cash and Pooled Investments

For the purpose of the statement of cash flows, the City considers cash and pooled investments to be cash and cash equivalents because the pooling of these balances allows for withdrawal at any time similar to a demand deposit account.

Investments

Investments are stated at fair value at the balance sheet date.

City investment policy allows for all investment authorized by State statutes. State statutes authorize the City to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.

CITY OF BIG RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended.

The City pension plan is also allowed to invest in corporate equity securities.

Receivables/Due from Other Governments

All receivables are recorded at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Uncollectible balances are immaterial to the financial statements.

Special Assessments Receivable

Special assessments receivable consist of long-term receivables from customers and benefited parties for various infrastructure improvement projects.

Loans Receivable

Loans receivable consist of loans to businesses located in the DDA for facility improvement projects. Loan terms require various repayments schedules.

Prepaid and Other Assets

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid and other assets in both the government-wide and fund financial statements.

Inventory

All inventories are valued at original cost using the first-in/first-out (FIFO) method. Inventory represents parts, materials, and supplies utilized in the various City operations.

Property Held for Resale

Property held for resale is valued at original cost. These properties are purchased with the intent of rehabilitation and resale in cooperation with the Big Rapids Housing Commission.

CITY OF BIG RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

Advances to Agency Funds

Noncurrent portions of long-term interfund loans receivable in governmental funds are reported as advances and are offset by fund balance reserve which indicates that the balance does not represent expendable available financial resources.

Restricted Cash and Pooled Investments

Restricted balances represent required reserves for the payment of principal and interest on outstanding bonds as well as other reserves required by bond agreements.

Capital Assets

Capital assets, which include land, construction in progress, buildings, vehicles and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the governmental and business-type activities columns in the government-wide financial statements.

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are valued at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Depreciation on capital assets (including infrastructure) is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	10-50
Vehicles and equipment	5-50
Public domain and system infrastructure	20-50

Deferred Revenue

Funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or for resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* reported in the funds were as follows:

Governmental funds	
Fire protection contracts	\$108,658
Special assessments	<u>43,923</u>
Total governmental funds	<u>\$152,581</u>

CITY OF BIG RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

Compensated Absences

Under contracts negotiated with employee groups and personnel policy, individual employees have a vested right to receive payments for unused vacation and other compensation depending on employment agreements. Accumulated compensated absences of governmental funds are recorded on the statement of net assets and not on the governmental fund balance sheets because the balance is not expected to be liquidated with expendable available financial resources. Amounts accumulated for proprietary funds are reported on the statements of net assets of the individual enterprise funds.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures.

Net Assets/Fund Balance

Reserved fund balance/restricted net assets represent those portions of fund balance/net assets not appropriable for expenditure/expense or legally segregated for specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Property Taxes

City property taxes are attached as an enforceable lien on property as of December 31. Summer taxes are levied July 1 and are due without penalty on or before September 19. Winter taxes are levied December 1 and are due without penalty on or before February 14. Tax bills include the City's own property taxes and taxes billed on behalf of other taxing units. Real property taxes not collected as of March 1 are turned over to the County for collection, which advances the City 100% of the delinquent real property taxes. Collection of delinquent personal property taxes remains the responsibility of the City Treasurer. Taxes collect on behalf of other taxing units is accounted for in the agency funds. Property taxes levied in July of each year are recognized as revenue in the year in which they are levied.

Income Taxes

The City has a local income tax for all city residence, businesses, and individuals working in the City. Income taxes receivable represents estimated income taxes for wages and profits through June 30, 2007 net of estimated refunds.

CITY OF BIG RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

Intergovernmental Revenues

Grants and assistance awards made on the basis of entitlement periods are recorded as due from other governments and revenue when entitlement occurs. Reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditure/expenses are incurred.

Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds. Transactions that constitute reimbursement to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the fund that is reimbursed. Changes between enterprise funds and other functions of the City are not reimbursements because elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Remaining transactions are generally reflected as transfers.

2. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

Michigan law, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgeted funds have been shown on a functional basis. The approved budgets of the City for these budgeted funds were adopted at the activity level.

During the year ended June 30, 2007, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General fund			
Transfers out	\$607,900	\$661,000	\$(53,100)

3. NET ASSETS DEFICIT

At June 30, 2007 the City had a net asset deficit of \$37,631 in the DPW Services internal service fund.

CITY OF BIG RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

4. CASH AND INVESTMENTS

The captions on the financial statements relating to cash and pooled investments and investments are as follows:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and pooled investments	\$5,735,847	\$2,067	\$ 156,388	\$5,894,302
Investments	-	-	5,540,802	5,540,802
Restricted cash and pooled investment	544,515	-	-	544,515
	<u>\$6,280,362</u>	<u>\$2,067</u>	<u>\$5,697,190</u>	<u>\$11,979,619</u>

The cash and investments making up the above balances are as follows:

Deposits	\$2,092,188
Investments	9,884,831
Petty cash	<u>2,600</u>
Total	<u>\$11,979,619</u>

The deposits are in financial institutions located in Michigan in varying amounts. State policy limits the Treasurer's investing options to financial institutions located in Michigan. All accounts are in the name of the City and a specific fund or common account. They are recorded in City records at fair value. Interest is recorded when earned.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require, and the City does not have, a policy for deposit custodial credit risk. As of year-end, \$1,643,597 of the City's bank balance of \$2,807,597 was exposed to custodial credit risk because the balance was uninsured and uncollateralized.

CITY OF BIG RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

Investments

The City chooses to disclose its investments by specifically identifying each. As of year-end, the City had the following deposits and investments:

	<u>Maturity</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Source</u>
Mutual fund accounts	N/A	\$5,581,521	Unknown	
Money market mutual funds	N/A	892,667	Unknown	
Bonds				
FNMA	5/9/11	38,268	Aaa	Moody
FNMA	6/3/09	99,690	Aaa	Moody
FHLMC	12/15/08	98,247	Aaa	Moody
FHLMC	10/15/12	48,875	Aaa	Moody
FHLMC	6/15/23	85,744	Aaa	Moody
FHLMC	5/15/15	48,432	Aaa	Moody
FHLMC	9/15/24	46,703	Aaa	Moody
FHLB	12/19/08	48,710	Aaa	Moody
Michigan Consolidated Gas	11/1/23	1,010	A2	S&P
FHLMC pools	2007-2020	102,042	Aaa	Moody
FNMA pools	2007-2023	5,495	Aaa	Moody
GNMA pools	2007-2034	127,343	Unknown	
GNMA unit investment trust	N/A	2,394,933	Unknown	
Preferred stock				
Bank of America 5.5%		13,770		
JP Morgan Chase XVI 6.35%		6,050		
Gen motors note 7.25%		28,995		
GMAC LLC note 7.375%		22,800		
Pulte homes 7.375%		4,960		
Corts Cap Tr Ford 7.4%		9,225		
Bac Capital Trust 6.25%		11,830		
US Bancorp 6.5%		12,350		
Wachovia Cap 6.375%		9,600		
Gladstone Commercial 7.5%		20,000		
HSBC Holdings 6.2%		14,310		
Ing Group 6.125%		18,824		
Public Storage 6.18%		11,435		
Royal Bank of Scotland 6.6%		7,500		
Common stock				
AXM Pharma		190		
China Northwest Biotech		45		
Conexant Systems		2,622		
El Paso Corporation		12,922		
General Electric Corp.		9,570		
Home Depot		7,870		
JDS Uniphase		3,358		
Microsoft Inc.		11,788		
Nabors Industries Ltd.		6,676		
Nortel Networks Corp.		6,012		
Symantec Corp.		4,525		
Time Warner Inc.		7,364		
Ultimate Franchise Systems		560		
Total		\$9,884,831		

CITY OF BIG RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

The aforementioned investments do not include certificates of deposit which are classified as deposits for risk identification purposes.

Investment and deposit risk

Interest Rate Risk. State law and City policy limit the allowable investments and the maturities of some of the allowable investments as identified in Note 1, the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity date for each investment is identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1, the summary of significant accounting policies. The investment policy does not have specific limits in excess of state law on investment credit risk. The rating for each investment is identified above for investments held at year end.

Custodial Credit Risk - Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. Of the above \$9,884,831 of investments, the City has a custodial credit risk of \$3,410,643 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities. Of the above mutual fund investments the City's custodial credit risk exposure cannot be determined because the mutual funds do not consist of specifically identifiable securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1, the summary of significant accounting policies. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year-end are reported above.

5. ADVANCES BETWEEN FUNDS

Advances receivables and payables at June 30, 2007 were as follows:

	<u>Payable fund</u>	
	<u>Payroll agency fund</u>	<u>Total</u>
<u>Receivable fund</u>		
General fund	\$40,000	\$40,000
Total	\$40,000	\$40,000

Advances represent long-term loans between the City general funds and the payroll agency fund primarily to provide cash flow for payroll clearing activities.

CITY OF BIG RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

6. INTERFUND TRANSACTIONS

Transfers in and out for the year ended June 30, 2007 are as follows:

<u>Transfer out</u>	<u>Transfer in</u>			<u>Total</u>
	<u>General fund</u>	<u>Nonmajor governmental</u>	<u>Nonmajor enterprise</u>	
General fund	\$ -	\$536,000	\$125,000	\$ 661,000
Nonmajor governmental	145,400	112,500	-	257,900
Wastewater Treatment	143,400	-	-	143,400
Water	177,100	-	-	177,100
Sanitation	63,000	-	-	63,000
Nonmajor enterprise	35,200	-	-	35,200
Internal service funds	72,300	-	-	72,300
Total	\$636,400	\$648,500	\$125,000	\$1,409,900

Transfers are used to (1) move unrestricted revenues collected in the general fund to finance capital and other various programs accounted for in other funds in accordance with budgetary authorizations and (2) move allocated cost of general operations to applicable funds.

CITY OF BIG RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

7. CAPITAL ASSETS

Capital asset activity for the year was as follows:

	Balance July 1, <u>2006</u>	<u>Additions</u>	<u>Deletions</u>	Balance June 30, <u>2007</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 4,526,322	\$ 234,928	\$ -	\$ 4,761,250
Total capital assets, not being depreciated	4,526,322	234,928	-	4,761,250
Capital assets, being depreciated				
Buildings	9,399,852	-	-	9,399,852
Vehicles and equipment	4,438,340	587,142	200,880	4,822,602
Infrastructure	2,862,407	603,623	-	3,466,030
Total capital assets, being depreciated	16,698,599	1,190,765	200,880	17,688,484
Less accumulated depreciation for				
Buildings	5,306,839	107,215	-	5,414,054
Vehicles and equipment	3,119,750	342,237	200,880	3,261,107
Infrastructure	107,790	80,767	-	188,557
Total accumulated depreciation	8,534,379	530,219	200,880	8,863,718
Net capital assets, being depreciated	8,164,220	660,546	-	8,824,766
Governmental Activities capital assets, net	\$12,690,542	\$895,474	\$ -	\$13,586,016
Business-type Activities				
Capital assets, not being depreciated				
Land	\$ 374,821	\$ -	\$ -	\$ 374,821
Construction in Progress	-	658,580	-	658,580
Total capital assets, not being depreciated	374,821	658,580	-	1,033,401
Capital assets being depreciated				
Buildings	6,075,104	-	-	6,075,104
Vehicles and equipment	8,107,647	129,842	-	8,237,489
Infrastructure	14,189,037	267,275	-	14,456,312
Total capital assets, being depreciated	28,371,788	397,117	-	28,768,905
Less accumulated depreciation for				
Buildings	2,734,789	175,124	-	2,909,913
Vehicles and equipment	4,798,881	331,377	-	5,130,258
Infrastructure	5,032,629	287,846	-	5,320,475
Total accumulated depreciation	12,566,299	794,347	-	13,360,646
Net capital assets, being depreciated	15,805,489	(397,230)	-	15,408,259
Business-type Activities capital assets, net	\$16,180,310	\$261,350	\$ -	\$16,441,660

CITY OF BIG RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities	
General government	\$ 47,778
Public safety	58,869
Public works and streets	98,178
Culture and recreation	126,705
Capital assets held by the governments internal service funds are charged to the various functions based on their usage of the assets	198,689
Total depreciation expense - governmental activities	\$530,219
Business-type Activities	
Wastewater Treatment	\$338,693
Water	373,831
Nonmajor enterprise funds	81,823
Total depreciation expense - business- type activities	\$794,347

8. PENSION PLANS

The City provides the following pension plans to employees meeting specific requirements based on positions status, City policy and bargaining agreements:

Michigan Municipal Employees Retirement System (MERS)

Agent multiple employer defined benefit and defined contribution retirement plans

Self-administered Michigan Act 345 Retirement System

Single employer defined benefit and defined contribution retirement plans

Public Safety department bargaining unit employees and supervisory personnel (police and fire staff) participate in either the Act 345 Retirement System defined contribution or defined benefit plans. Remaining eligible employees participate in either the MERS defined contribution or defined benefit plans.

Defined Contribution Pension Plans

The City provides several defined contribution pension plans, which provides pension benefits to qualified employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The City's contribution for employees eligible to participate in the plans vests based on year of service with 100% vesting occurring after 7 years of service. The City and participants contribute a percentage of participant salary to the plans based on the participant's position with the City. City contributions to the Act 345 plan range from 5.5% to 8% of salary and participants contribution range from 2% to 4% of salary. City contributions to the MERS plan range from 8% to 9.5% of salary and participants contribute range from 4% to 5.5% of salary. City contributions were \$166,279 and \$68,091 and participant contributions were \$113,517 and \$38,533 to the Act 345 plan and the MERS plan respectively. The plan provisions and contribution amounts were established by the City commission and may be amended by the Commission. The plans are administered as noted above.

CITY OF BIG RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

Defined Benefit Plan

MERS Plan Description

The City participate in the Municipal Employees' Retirement System of Michigan (MERS), an agent multi-employer defined benefit pension plan providing retirement, death and disability benefits. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917.

The City is required to contribute at an actuarially determined rate based on annual covered payroll and dependent on position. The employees and the city are required to contribute from .75% to 3.95% and 0% to 18.75% of gross wages to the Plan based on position respectively. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of employees are established and may be amended by employment and labor agreements.

For the year ended June 30, 2007, the City's annual pension cost of \$313,009 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of eight (8.0) percent; and (b) projected salary increases of four and one-half (4.5) percent per year compounded annually based on inflation, plus from 0% to 8.4% based on an age-related scale to reflect merit, longevity and promotional salary increases. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation, was 30 years.

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/05	\$ 268,262	100%	\$ -
6/30/06	284,494	100%	-
6/30/07	313,009	100%	-

Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u> <u>Entry Age</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>Total</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>((b-a)/c)</u>
12/31/04	\$6,428,409	\$8,246,156	\$1,817,747	78%	\$1,822,438	100%
12/31/05	6,821,569	9,593,158	2,771,589	71%	1,939,093	143%
12/31/06	7,227,970	10,276,408	3,048,438	70%	1,831,176	167%

CITY OF BIG RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

Act 345 Plan description

The City has a single-employer defined benefit retirement plan which provides pension, death and disability benefits to public safety department policemen and firemen. Act 345 assigns the authority to establish and amend benefit provisions and contribution requirements to the City, subject to the terms of collective bargaining agreements. Plan members are required to contribute 6% of their annual covered salary depending on the applicable collective bargaining agreement and/or unit assignment. The City is required to contribute at an actuarially determined rate; the current amount of \$300,000 was contributed to the plan. Membership of the Act 345 defined benefit plan consisted of the following at the date of the latest actuarial valuation (June 30, 2006):

Act 345 defined benefit plan

Retirees and beneficiaries receiving benefits	22
Terminated plan members entitled to but not yet receiving benefits	2
Active plan members	<u>2</u>
Total	<u>26</u>
Number of participating employers	<u>1</u>

This plan is closed to additional participants

The City's annual pension cost and net retirement benefits obligation for the current year were as follows:

Act 345 defined benefit plan

Annual required contribution / pension cost	\$300,000
Contributions made	<u>300,000</u>
Net pension obligation, end of year	<u>\$ -</u>

The annual required contribution for the current year was determined as part of the June 30, 2006, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on investments of 7.0% per year compounded annually; (b) projected salary increases of 4.0% per year compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 0% to 3% per year, depending on age and service, attributable to seniority/merit; and (d) the assumptions that pension benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a four year period using a level percent of payroll. The latest actuarial valuation was performed as of June 30, 2006. The unfunded actuarial liability is amortized as level percent-of-payroll on a closed basis over a 9 year period.

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

CITY OF BIG RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

Three-Year Trend Information			
<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/05	\$ 160,712	100%	\$ -
6/30/06	284,350	100%	-
6/30/07	300,000	100%	-

GASB Statement 25 required supplementary information is presented after the notes to the financial statements section in this report. A stand-alone financial report of the Act 345 defined benefit Plan has not been issued.

9. LONG-TERM DEBT

The following is a summary of the debt transactions of the City for the year ended June 30, 2007:

	<u>Balance</u> <u>July 1,</u> <u>2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30,</u> <u>2007</u>	<u>Due</u> <u>Within</u> <u>One</u> <u>Year</u>
Governmental Activities					
Cemetery fee payable to Big Rapids Charter Township in annual installments of \$15,000 through November 2011; non interest bearing and adjusted annually by the CPI index	\$ 90,000	\$ -	\$ 15,000	\$ 75,000	\$ 15,000
Unlimited Tax General Obligation Bonds, Series 2001; due in annual installments of \$45,000 to \$465,000 through 2021, plus interest at 4.375%	4,130,000	-	135,000	3,995,000	145,000
Total	4,220,000	-	150,000	4,070,000	160,000
Accrued employee benefits	276,581	206,900	189,577	293,904	195,934
Total Governmental Activities	\$4,496,581	\$206,900	\$339,577	\$4,363,904	\$355,934
Business-type Activities					
Wastewater Treatment System Revenue Bonds, Series 1993, due in annual installments of \$75,000 to \$175,000 through September 1, 2012; plus interest at 5.0%	\$1,050,000	\$ -	\$125,000	\$925,000	\$135,000
Water Supply System Revenue Bonds, series 1995, due in annual installments of \$40,000 to \$110,000 through October 1, 2015; plus interest at 4.50% to 5.25%. (these bonds were refunded during the year ended June 30, 2007)	860,000	-	860,000	-	-

CITY OF BIG RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
Water Supply System Revenue Bonds, series 1999, due in annual installments of \$115,000 to \$130,000 through October 1, 2009; plus interest at 5.375%. (these bonds were partially refunded during the year ended June 30, 2007)	\$2,250,000	\$ -	\$1,880,000	\$ 370,000	\$115,000
Water Supply System Revenue Refunding Bonds, series 2006, due in annual installments of \$85,000 to \$210,000 through October 1, 2019; plus interest at 4.0% to 4.25%.	-	2,635,000	-	2,635,000	85,000
Total before unamortized discounts/premiums	4,160,000	2,635,000	1,865,000	3,930,000	335,000
Unamortized discounts	(57,574)	-	47,374	(10,200)	-
Unamortized premium	-	47,927	-	47,927	-
Total Business-type Activities	\$4,102,426	\$2,682,927	\$1,912,374	\$3,967,727	\$335,000

The annual requirements to amortize all debt outstanding (excluding accrued employee benefits) as of June 30, 2007 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 160,000	\$ 174,782	\$ 335,000	\$ 159,706
2009	180,000	168,438	355,000	142,623
2010	195,000	161,218	370,000	124,557
2011	215,000	153,344	385,000	107,625
2012	235,000	144,594	405,000	91,825
2013-2017	1,430,000	560,216	1,460,000	256,225
2018-2021	1,655,000	188,344	620,000	38,912
Total	\$4,070,000	\$1,550,936	\$3,930,000	\$921,473

During the year the City issued \$2,635,000 of 2006 Water Supply System Refunding Bonds, series 2006 to advance refund \$795,000 of 1995 Water Supply System Revenue Bonds and \$1,770,000 of 1999 Water Supply System Revenue Bonds. The net proceeds of the refunding bonds were used to purchase U.S. Government securities which were placed in an irrevocable trust with an escrow agent to provide for principal and interest payments on the refunded bonds. As a result of the refunding, the refunded portion of the 1995 and 1999 Water Supply System Revenue Bonds are considered to be defeased and the liability for these bonds has been removed for the City's long-term debt. The current year refunding reduced total debt service payments by approximately \$129,000 and resulted in an economic gain of approximately \$92,000. At year end, \$1,770,000 of bonds outstanding are considered defeased.

CITY OF BIG RAPIDS

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

10. RISK MANAGEMENT

The City is self-funded for medical, dental, optical and disability insurance. The claims liability of \$6,930 reported at June 30, 2007 is based on the requirements of Statement No. 10 of the Governmental Accounting Standards Board, which requires that a liability for claims be reported if it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

The activity of the self-funded insurance is accounted for in the self-insurance internal service fund. An independent administrator is contracted to process the daily claims. An excess coverage insurance policy covers individual claims in excess of \$40,000 per family. There were no changes in insurance coverage from the prior year. The City is responsible for paying administrative charges which are included in this fund. The revenues for this fund's operation are reimbursements from various funds, employee withholdings, and co-payments. The liability at the end of the year included claims already incurred and reported as well as an estimate for claims incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. Settled claims have not exceeded insurance coverage in the history of the self-insurance program, and there have been no significant reductions in insurance coverage from the prior year. The changes in the claims liability for the years ended June 30, 2007 and 2006 were as follows:

<u>Year</u>	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of Year Liability</u>
2006	\$27,626	\$929,317	\$930,599	\$ 26,344
2007	26,344	924,865	944,279	6,930

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the government carries commercial insurance and participates in the Michigan Municipal Liability and Property Pool (the Pool). The City is covered for property and liability coverage through the pool. The City's contributions to the Pool are combined with other member contributions to provide members with coverage for property and liability claims. Funds not needed to pay claims or maintain reserves are either distributed to the members or credited toward future contributions. Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years. There were no changes in insurance coverage from the prior year.

11. ECONOMIC DEPENDENCY

Ferris State University is a major customer of the City's wastewater, water, and sanitation services. During the year ended June 30, 2007, revenue attributable to charges for these services was recognized in the City's wastewater, water and sanitation funds in the amount of \$596,836, \$614,277, and \$127,776, respectively.

CITY OF BIG RAPIDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007

12. RESTATEMENTS

Beginning net assets of the Downtown Development Authority component unit has been restated to properly reflect the affect of loans receivable at the beginning of the year which resulted in an increase in beginning net assets of \$122,098.

13. LITIGATION

In the normal course of its activities, the City has become a party in various legal actions. Management of the City is of the opinion that the outcome of such actions will not have a material effect on the financial position of the City. Amounts reserved for losses related to legal actions have not been included as a liability in the financial statements.

14. DETACHMENT SETTLEMENT

As a result of an election on May 14, 1991, a total of 1,124 acres of City property was detached from the City and transferred to the adjoining Big Rapids Township. Various real property owned by the City of Big Rapids (airport, community swimming pool and cemetery) are located in the detached area. Ownership of the cemetery transferred to the Township by operation of law at the date of detachment.

Negotiations between the City and the Township regarding other City property, apportionment of City assets and debt, and other issues resulted in a Mutual Settlement Agreement between the two units on October 20, 1992. As a result of the settlement, no apportionment of City assets and debt as of the date of detachment was made; the City retained ownership of the airport and swimming pool; and state shared revenues received by the City arising from the detached area from May 14, 1991 to June 30, 1992 were paid to the Township (total amount of \$43,499). State revenue sharing is allocated to the City and Township based on corrected population after that date.

The City also agreed via the Mutual Settlement Agreement to pay the Township an annual fee of \$15,000 beginning November 1, 1992 and continuing for twenty years (increased or decreased annually in proportion to the change in the Consumer Price Index (CPI) each year - or five percent, if lower). At the end of twenty years, the City will begin paying an annual fee equal to one-half of the annual cost of operating the cemetery at that time and then as adjusted for the CPI for the next twenty years with recomputation of the one-half of expenses at the end of each subsequent twenty-year period. The City's obligation shall continue to perpetuity or until the Township is permanently relieved of its obligation to operate and maintain the cemetery.

The \$21,882 fee paid in the current year is reported as an expenditure under the general government function. The City's remaining obligation is reported in the statement of net assets in the governmental activities column, (total amount of \$75,000). No implicit interest was computed under the assumption that the annual change in the CPI will effectively equate to an interest rate that reflects inflation over the time period. No liability has been recorded for amounts payable after the initial twenty-year commitment.

15. SUBSEQUENT EVENTS

On June 18, 2007, the City of Big Rapids issued a notice of intent to issue wastewater revenue bonds in an amount not to exceed \$8,000,000.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BIG RAPIDS

REQUIRED SUPPLEMENTARY INFORMATION

Act 345 Plan SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
6/30/1997	\$ 5,600,000	\$ 6,000,000	\$ (400,000)	93.33%	\$ 1,000,000	40.00%
6/29/1998	4,700,000	5,000,000	(300,000)	94.00%	5,000,000	6.00%
6/30/1999	5,200,000	5,400,000	(200,000)	96.30%	4,000,000	5.00%
6/30/2000	5,400,000	5,400,000	-	100.00%	400,000	0.00%
6/30/2001	5,400,000	5,400,000	-	100.00%	400,000	0.00%
6/30/2002	5,300,000	5,300,000	-	100.00%	400,000	0.00%
6/30/2003	5,100,000	5,100,000	-	100.00%	400,000	0.00%
6/30/2004	5,000,000	5,000,000	-	100.00%	200,000	0.00%
6/30/2005	4,900,000	4,900,000	-	100.00%	100,000	0.00%
6/30/2006	5,000,000	5,000,000	-	100.00%	100,000	0.00%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended June 30</u>	<u>Annual required Contribution</u>	<u>Actual Contribution</u>	<u>Percent Contributed</u>
1998	\$ 200,000	\$ 200,000	100%
1999	113,072	113,072	100%
2000	134,817	134,817	100%
2001	84,529	84,529	100%
2002	82,486	82,486	100%
2003	102,454	102,454	100%
2004	167,862	167,862	100%
2005	160,172	160,172	100%
2006	284,350	284,350	100%
2007	300,000	300,000	100%

CITY OF BIG RAPIDS

REQUIRED SUPPLEMENTARY INFORMATION

Act 345 Plan Summary of Actuarial Methods and Assumptions

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	6/30/2006
Actuarial cost Method	Aggregate actuarial cost method
Amortization method	Level percentage of active payroll over future working lifetime
Remaining amortization period	9 years
Asset valuation method	4 year smoothing
Actuarial assumptions	
Investment rate of return*	7.00%
Projected salary increases	4.0%-7.0%
Cost-of-living adjustments	N/A
Assumed rate of membership growth	0%

* includes inflation at 4%

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**